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Latam Daily: Colombia's Q3 GDP Falls Below Market Expectations

- Colombia: Economic growth fell short of market expectations, and posted an uneven recovery

Data released by DANE on Monday, November 18th, showed that Colombia's real GDP grew 2.0% y/y in Q3-2024, below the 2.3% expected by market consensus and BanRep's forecast of 2.4%, and slightly above our forecast of 1.9% (chart 1). In seasonally adjusted terms, economic growth recorded a variation of 0.2% compared to the second quarter, slowing down versus the second quarter of 2024 (0.5% q/q). Economic activity shows heterogeneous behaviour in which most of the growth relies on a few sectors, while the sectors associated with a high employment demand are still posting moderate to null increases. On the demand side, there are some green shoots that arose from the recovery of imports, while investments remain lacking in the recovery.

That said, our take on yesterday's data is that the economy is still transitioning through the bottom of the economic cycle, but we are still looking for a broader recovery force. For now we maintain our GDP growth forecast for 2024 at 1.5%, while for 2025 we expect an acceleration to 2.9% y/y. Regarding monetary policy, as we have highlighted in previous reports, the negative output gap is an argument for accelerating the easing cycle, however, the fiscal uncertainty maintains the cautious approach of the central bank board, and that is why, after yesterday's data, we expect the central bank to cut the interest rate by 50bps at December's meeting to close the year at 9.25%.

From a sectoral perspective, the economic activity results show a mixed picture, in which agricultural activities, leisure and public administration leverage growth, while manufacturing and mining offset the recovery. In the third quarter, agricultural activities grew by 10.7% y/y, the highest increase since 2017, and contributed 1.1 ppts to overall growth, reflecting good dynamism in crops, where coffee crops stand out (+33.6% y/y). Leisure was the second sector that contributed the most to the variation, with a growth of 14.1% y/y and a contribution of 0.5 ppts. In this context, according to the Economic Activity Indicator (ISE), in September leisure activity showed a positive performance (8.0% y/y), which implies a positive behaviour for the rest of the year. Despite it being positive to see the expansion of those sectors, we highlighted that Colombia should find a boarder source of expansion as the positive behaviour may not be repeated in 2025.

The manufacturing industry remained in negative territory for the sixth consecutive quarter but showed a slower acceleration compared to previous quarters. Manufacturing

Chart 1

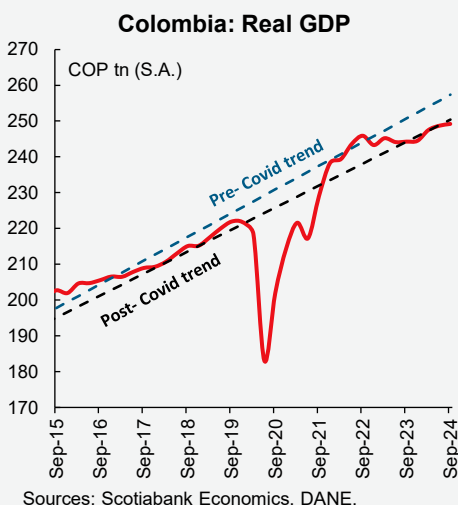


Chart 2

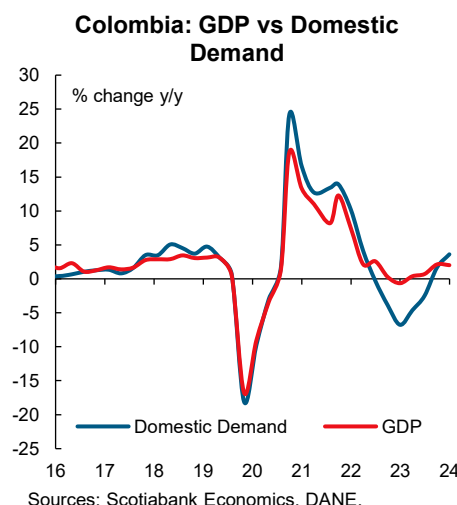
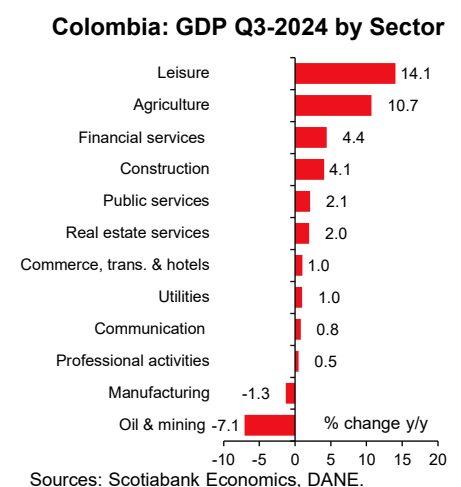


Chart 3



fell -1.3% y/y, subtracting 0.2 ppts from overall growth, showing weaker activity in the oil refining, textile, and food processing sectors. The oil and mining sector, with a variation of -7.1% y/y and a negative contribution of 0.5 ppts, also contributed negatively to third quarter results, with coal mining being the most affected.

Domestic demand grew by 3.6% y/y driven by investments and imports (chart 2). Investments showed a considerable recovery, with a 22.7% y/y growth in gross capital formation and a 4.0% y/y increase in gross fixed capital formation, although investments continue well below pre-pandemic levels. Exports were the second component contributing to the overall GDP growth, with a growth of 3.8% and a contribution of 0.7 ppts, however, the improved export performance was offset by an 11% y/y increase in imports (which suggests a better domestic demand), increasing the trade deficit by 0.6 ppts compared to the previous quarter. Finally, final consumption grew by 0.7% y/y, contributing 0.6 ppts, showing a recovery in final household consumption, which grew by 1.6% YoY, led by higher spending on non-durable goods (+1.8% y/y) and services (+1.3% y/y), however, it is worth noting that durable goods recovered a bit expanding by 6.2% y/y after a negative base and 8.2% y/y contraction one year ago.

The results show that economic activity is subject to seasonal shocks and that growth in the first part of the year may not be sustainable. Agricultural activity has played an important role in the economic recovery in response to the improved behaviour of climatic changes and a greater supply of agriculture in the country. However, consumption continues to be uneven across sectors, with good dynamics in the services sector, although this puts pressure on manufacturing production. Looking at the monthly evolution of economic activity, we see a 1.2% y/y increase and a 0.2% m/m slowdown in September, complemented by inflation that remained below expectations in October, which could put pressure on the central bank to accelerate the pace of interest rate cuts. However, it is important to note that fiscal risks maintain our expectation of a 50bps cut in December. Before the next BanRep meeting, the board will have the economic activity results for October, the inflation data for November, current account data, and the advance of the minimum wage negotiations.

Key Highlights:

- On the supply side, agriculture contributed around 50% of economic growth with a variation of 10.7% y/y and a contribution of +1.1 ppts.** Leisure was the second activity to contribute to growth with an increase of 14.1% y/y and a contribution of 0.5 ppts. In third place are the public administration activities, with a variation of 2.1% and a contribution of 0.3 ppts. Among other activities, construction grew by 4.1% y/y, a growth that is mainly attributed to a good dynamic in civil infrastructure works with an increase of 16.5% y/y.
- Overall commercial activity showed a slight recovery while financial and insurance activities rebounded with 4.4% y/y.** Commercial activity grew by 1.0% y/y, showing a recovery amid a rebound in retail sales of technological equipment, household appliances and televisions. Financial and insurance activities continue to perform positively after registering a decline in the first quarter of the year.
- On the negative side, manufacturing industries, oil and mining activities were the ones that offset growth.** Manufacturing industries fell by -1.3% y/y, subtracting -0.2 ppts and mining fell by -7.1% YoY, subtracting -0.5 ppts (charts 3 and 4).
- In seasonally adjusted terms, economic growth was weak, with a variation of 0.2% q/q.** Artistic activities grew the most (+3.6% q/q), followed by agricultural activities (+2.5% q/q) and the financial sector (+1.5% y/y). Meanwhile, oil and mining (-2.1% q/q), public administration (-0.7% q/q) and the provision of utilities and construction fell -0.2% q/q, respectively.

Chart 4

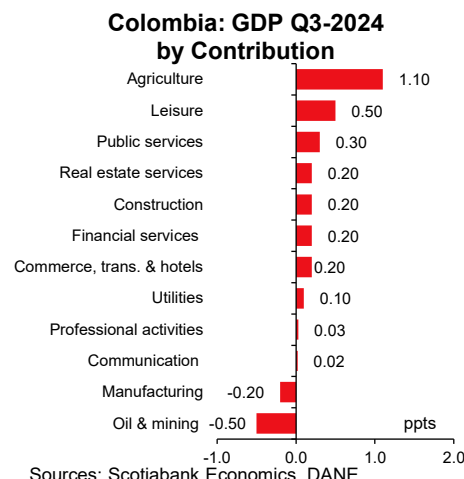


Chart 5

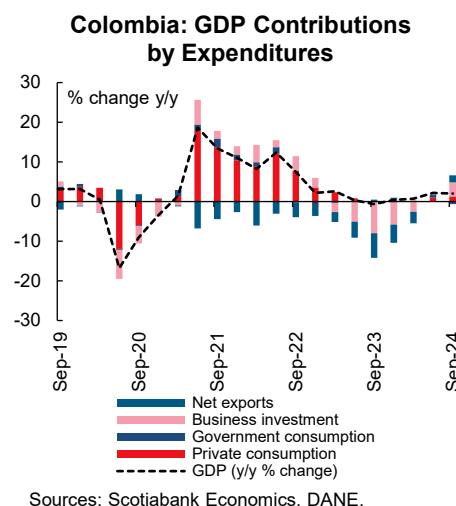


Chart 6



November 19, 2024

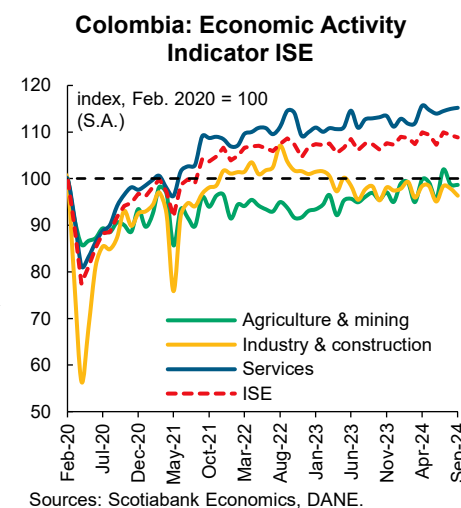
- Consumption and increased exports drove the growth of domestic demand.** Domestic demand increased by 3.6% y/y and 0.7% q/q. Consumption contributed the most, with a variation of 0.7% y/y and a contribution of 0.6 ppts. However, government spending fell -4.3% y/y and decreased -8.2% q/q during this period after an increase of 2.4% q/q in the last quarter. Household consumption grew 1.6% y/y, reflecting higher spending on non-durable goods (+1.8% y/y), services (+1.4% y/y) and durable goods (+6.2% y/y), while spending on semi-durable goods fell -1.2% y/y, associated with lower demand for textile products. Exports increased 3.8% y/y, contributing 0.7 ppts, while imports had a variation of +11.0% y/y, offsetting with -2.4 ppts. It is worth noting that the importing of goods, expanding by 13.3% y/y, is a good sign but not enough to offset the contraction of one year ago (-28.7% y/y), see charts 5 and 6.
- In the case of investments, gross capital formation expanded by 22.7%;** however, investments expanded by only 4.0%, suggesting that inventories increased during the third quarter. In the case of investment, the main contributors were other buildings (+12.8% y/y) and machinery and equipment (+5.9% y/y), while investment in housing contracted the most since 2020 by 9.1% y/y, showing a still-weak balance. Investment in the construction sector remain 21% below pre-pandemic times, while machinery and equipment is 26% above pre-pandemic times.

Economic Activity Indicator (ISE):

In September, the ISE grew by 1.2% compared to September 2023, with eight of the twelve activities showing positive variations. The growth was mainly due to an increase in the agriculture sector of 7.6% y/y with a contribution of 0.8 ppts, public administration which increased 3.7% y/y and contributed 0.5 ppts, followed by leisure with an increase of 8.0% y/y with a contribution of 0.5 ppts. On the negative side, oil and mining recorded a drop of -8.7% y/y subtracting 0.6 ppts of the result, followed by manufacturing, which contracted -3.3% y/y subtracting 0.4 ppts.

On a seasonally adjusted basis, the ISE fell by -0.4% compared to August 2024, showing declines in nine of the twelve activities. In September, the secondary sector was the one that fell the most compared to the previous month (-1.6% m/m), and does not seem to show evidence of a recovery in the short-term. The primary sector (-0.1% m/m) shows declines in the agricultural sector (-0.3% m/m) and the oil and mining sector (-0.8% m/m), while service activities (+0.2% m/m) offset this behaviour with positive dynamics in leisure, professional and financial activities (chart 7).

Chart 7



—Jackeline Piraján & Valentina Guio

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